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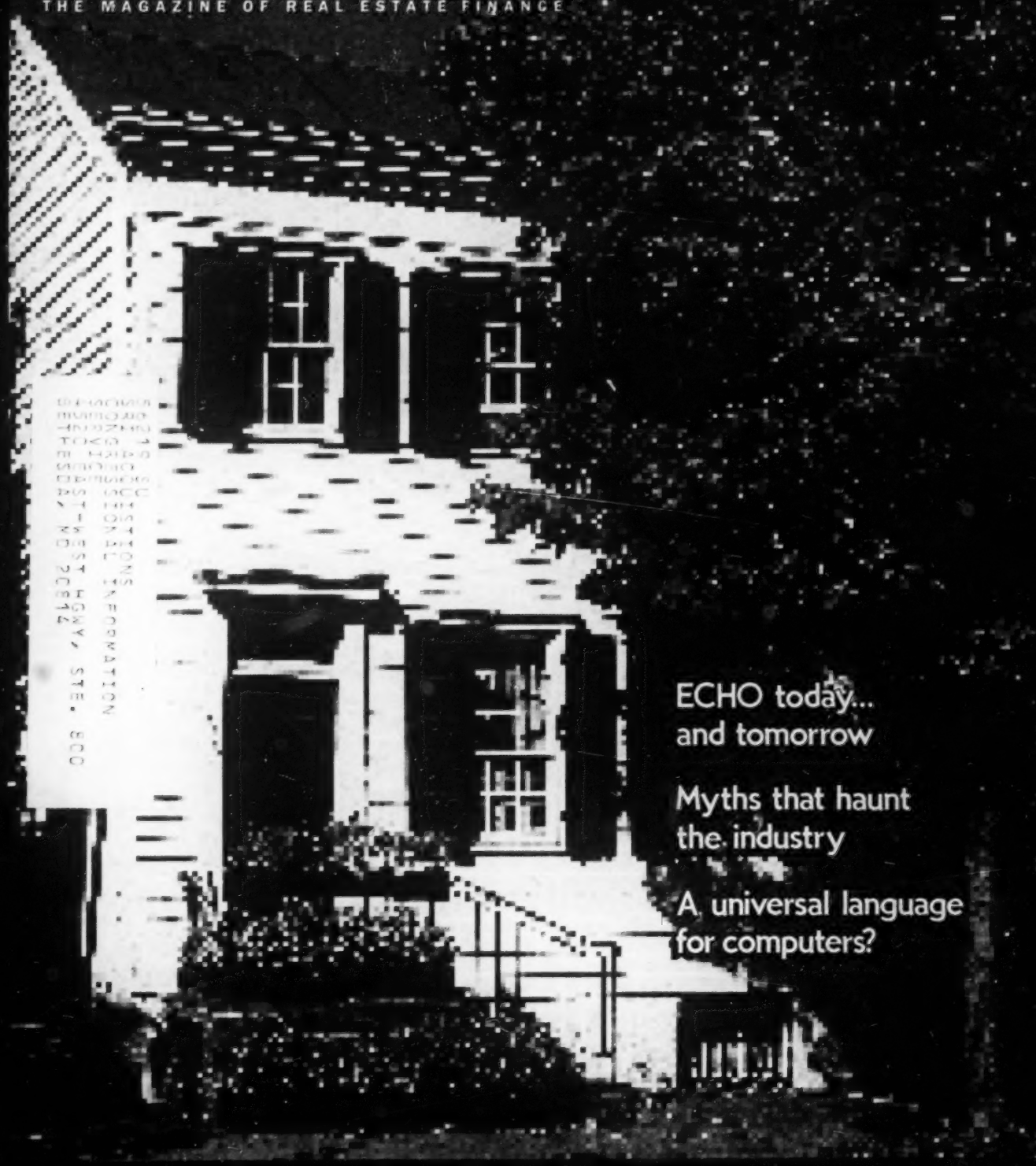
MARCH 1988

# MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE



ECHO today... and tomorrow

Myths that haunt the industry

A universal language for computers?

# MORTGAGE BANKING

VOLUME 48 NUMBER 6

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**Business and Editorial Offices**
1125 15th Street, N.W.
Washington, D.C. 20005
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*Advertising* (202) 861-6555
*Circulation* (202) 861-6992

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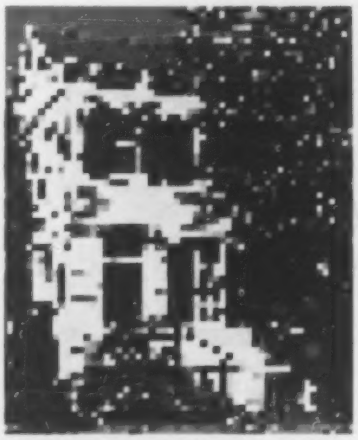
# EDITORIAL PAGE



## THE ISSUE

Space age Impressionism? Pointillism redefined? Art nouvelle?

We'll let you decide what to call this month's cover treatment. But let it be said when we planned our issue on automation, we weren't going to let our cover escape the technology that's become available to the industry.

Gone are the days when Disney did his own animations in excruciating repetition by hand. Gone too is the repetitious hand processing of many, but not all, aspects of the mortgage business.

Just as a computer dealt the house on our cover a "new wave" look (a technique called pixelization) computers are simplifying the many processes that go into getting a home into the hands of the homeowner. Without automation, streamlining the mortgage banking process would be like having a human designer try to put together the cover photograph by hand.

**This month's issue** provides a variety of articles that detail new uses of technology in our business. We begin the issue by introducing a new player in that arena. The Mortgage Banking Service Corporation using ECHO to link the industry is featured beginning on page 16. On page 36, Andrew Jezior › provides an update on the progress MBA and the industry are making on an old problem: computer standardization.

Two articles address automation of the secondary marketing function. "Doc" Baldwin details tracking systems on page 49 and Patrick Boulay, in a "past is prologue" piece advises the industry to learn from past automation errors.

The review of progress in credit report automation on page 85 outlines many of the newest products that link the mortgage banker with credit reporting agencies.

Should the mortgage banker keep automation at home or contract out? G. William Knight explains the benefits of in-house automation. Automation can help the small- and mid-sized lender compete with industry giants, according to Sig Anderman's article.

And, on another subject, mythically speaking, is Felix Beck's article on dealing with the realities of market volatility and decreased production: "Ten Myths of Mortgage Banking."

Finally, about our cover: maybe some art is better left to the hand.

Jane DeMarines

Jane DeMarines
Senior Director
of Public Affairs
and Marketing

## THE ARTIST

The cover is a pixelization of a transparency, which is done through color electronic imaging. This state of the art system is referred to as scitex. The transparency was scanned into a computer and stored on a disc pack in digital form at a high resolution. Freelance photographer Susan Tull of Washington, D.C. and a graduate of Vanderbilt University took the photograph of the Georgetown townhouse.

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**The Secondary and Multifamily Markets**

**Hedging for 1988**

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People—where they live, how they live, what they want and what they can afford—will influence your long-range plans. Don't ignore demographics in creating your business strategy for the future.

# Demographics for the 1990s

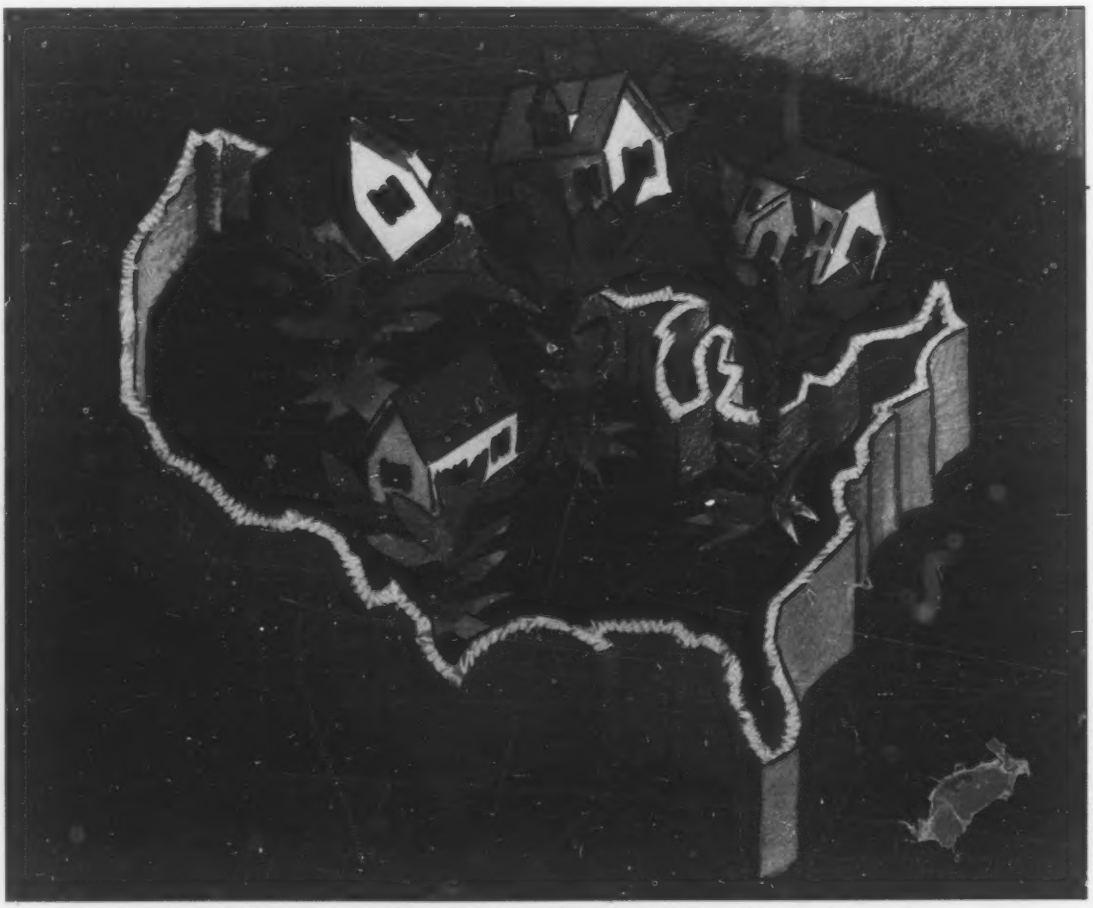


ILLUSTRATION BY STEVE McCRACKEN

Thomas M. Holloway and Richard W. Peach

One of the building blocks of a national housing policy for the remainder of this century and the start of the next is the underlying demographic trends expected for that period. Demographic trends play a critical role in what the quantity, quality and location of future demands for housing will be. Projected growth of the aggregate number of households, which is based upon population growth, the age structure of the population, and the propensity of members of the population to form households, provides a guide to the aggregate number of new housing units needed to maintain an adequate stock of housing. In turn, economic and social factors, particularly the cost of housing, influence household formation decisions. The age of the householder, marital status and income of these new households suggest what type of additional housing will be needed. Finally, migration patterns within the country indicate where this additional housing will likely be located.

Research finds that:

- Population growth slowed noticeably from the 1950s to the 1980s. Further deceleration is expected in the 1990s.
- The age distribution of the population has changed significantly, mainly as a result of the baby boom generation.
- Household formation soared in the 1970s as the baby boom generation reached the 25 to 34 age group. Household formation has slowed in the 1980s and is expected to slow further in the 1990s as the baby boom generation matures.
- In addition to the aging of the population, reduction in housing affordability will also slow the household formation rate.
- The number of new housing units that needs to be constructed to maintain an adequate supply of housing is expected to decline in the future due to the slower rate of household formations.
- After a sharp dip in the early 1980s, the percentage of new households that live in owner-occupied dwellings is expected to rise sharply. As a result, the overall homeownership rate is expected to rise.
- Regional population shifts from the Northeast and Midwest to the South and West will contribute to housing demand in spite of decelerating overall population growth. New housing must be provided in the rapidly growing regions.

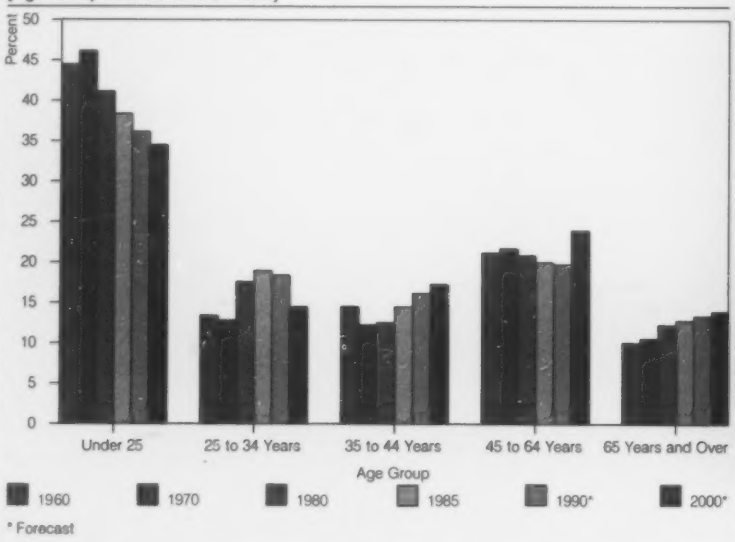
Since the middle of this century the rate of growth of the population has been slowing and, based on Bureau of the Census projections, this trend is expected to continue well into the future. Table 1 shows the U.S. population for 1960 to 1985 with projections out to the year 2000 with percentage shares of selected age groups (also depicted in Chart 1). Table 2 presents the actual and projected percentage changes in population in selected age groups over 10-year intervals from 1950 to 2000. Overall, the population growth rate is clearly decelerating. The compound annual growth rate was 1.7 percent in the 1950s, 1.3 percent in the 1960s, about 1.0 percent from 1970 to 1985, and is expected to decelerate further to about 0.6 percent by the late 1990s. The primary factor behind this slowing growth rate is the decline in the birth rate. In 1960, the birth rate in the U.S. (live births per 1,000 population per year) stood at about 24. By the late 1970s, the birth rate had fallen to just below 15. Since then, the rate has increased somewhat, but appears to have stabilized between 15 and 16.

Despite this trend of declining aggregate population growth, the changing age structure of the population has caused the number of persons in the various age groups to increase and decrease precipitously. In particular, the baby boom, a large group of individuals born between 1945 and 1964, has moved through the age structure and has had major social and economic impacts. For example, during the 1950s the number of people under 16 years of age increased by about 35 percent, nearly double the growth rate of the total population, prompting massive investment in public elementary and secondary schools. In the 1960s, the number of people aged 16 to 24 years increased by nearly 50 percent, requiring substantial investment in the nation's colleges and universities. During the 1970s, the baby boomers swelled the 25 to 34 age group, whose members establish independent households and thereby demand housing. However, from 1985 on the proportion of the population in the 25 to 34 age group is projected to decline as the baby boomers move into the 35 to 44 and 45 to 64 age groups. The population 65 years and older represents a growing share of the total—largely the result of better medical care and increased life expectancies. After 2010, growth in this age group is expected to accelerate as the baby boomers arrive. The large and growing retired population will have many significant economic and social implications and must be considered carefully when designing programs, housing or otherwise, that serve the elderly. Ultimately, these programs must be financed by those working—a declining share of the population in the future.

The effects of growth in the population and shifts in the age structure of the population on housing demand depend on the propensity of the population to form households. Chart 2 contrasts the growth in households with population growth over the period from 1960 to 2000. Growth in households peaked at about a 2 1/2

## CHART 1

**U.S. Population by Age**
[Age Group as a Percent of Total]




* Forecast

**Household formation soared in the 1970s . . . slowed in the 1980s . . . and is expected to slow further in the 1990s as the baby boom generation matures.**

## Table 1

**U.S. Population by Age**

| | Total, All Ages | | Age Group as a Percent of Total | | | | |
|---|---|---|---|---|---|---|---|
| Year | Millions | Compound Annual Growth Rate from Preceding Year [percent] | Under 25 | 25 to 34 | 35 to 44 | 45 to 64 | 65 and over |
| 1960 | 180.7 | 1.7 | 44.6 | 12.7 | 13.4 | 20.0 | 9.2 |
| 1970 | 205.1 | 1.3 | 46.1 | 12.3 | 11.3 | 20.5 | 9.8 |
| 1975 | 216.0 | 1.0 | 44.0 | 14.6 | 10.6 | 20.3 | 10.5 |
| 1980 | 227.8 | 1.1 | 41.3 | 16.5 | 11.4 | 19.6 | 11.3 |
| 1985 | 239.3 | 1.0 | 38.3 | 17.6 | 13.3 | 18.8 | 11.9 |
| 1990 | 249.7 | .9 | 36.1 | 17.4 | 15.1 | 18.6 | 12.7 |
| 1995 | 259.6 | .8 | 35.0 | 15.6 | 16.2 | 20.1 | 13.1 |
| 2000 | 268.0 | .6 | 34.3 | 13.6 | 16.3 | 22.7 | 13.0 |

Sources: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311, 519, 917, 952, and 965.

## Table 2

**Percent Change in Population: Total and By Age Group**

| | 1950 to 1960 | 1960 to 1970 | 1970 to 1980 | 1980 to 1990 | 1990 to 2000 |
|---|---|---|---|---|---|
| All Ages | 18.7 | 13.5 | 11.1 | 9.6 | 7.3 |
| Under 16 Years | 35.3 | 5.3 | −10.8 | 4.6 | 3.3 |
| 16 to 24 Years | 9.8 | 48.9 | 19.2 | −16.6 | −0.2 |
| 25 to 34 Years | −4.6 | 10.5 | 48.6 | 15.7 | −16.3 |
| 35 to 44 Years | 11.9 | −4.4 | 11.7 | 46.3 | 15.6 |
| 45 to 54 Years | 17.9 | 13.3 | −2.4 | 11.6 | 46.1 |
| 55 to 64 Years | 16.6 | 19.6 | 16.5 | −3.3 | 12.9 |
| 65 Years and Over | 34.5 | 20.6 | 27.8 | 23.3 | 10.2 |

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, Nos. 311, 519, 917, and 965.

percent compound annual rate in the 1975 to 1980 period, decelerated sharply to about 1 1/2 percent in the 1980s, and is expected to further decelerate to a little over 1 percent in the 1990s. Over the entire period, the household growth rate exceeded the population growth rate.

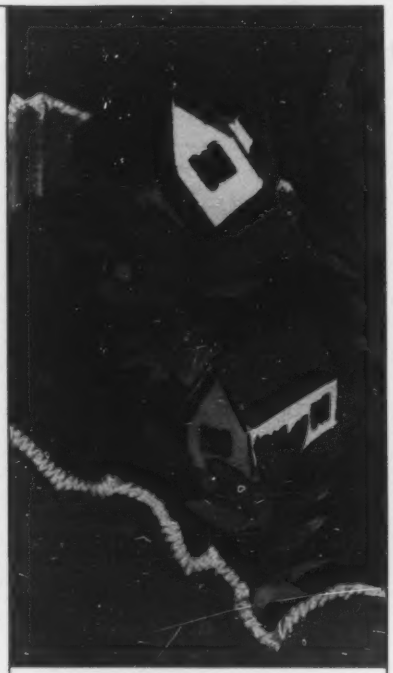
The link between the population and the number of households, and so housing demand, lies in the headship rate. The headship rate is the ratio of household heads to population, and so the number of households equals the headship rate times the population. Table 3 and Chart 3 show household headship rates by age group for the period 1960 to 1985. Note that for any particular year the headship rate tends to increase as age increases. For this reason, an aging population increases the growth rate of the number of households relative to the growth rate of the population. Note, for example, that during the 1975 to 1980 period, when the rate of household growth peaked, large numbers of individuals were moving from the 20 to 24 year age group with a headship rate of 29 to 30 percent into the 25 to 34 age group

with a headship rate of 48 to 53 percent. In fact, a recent study concludes that about one-third of the difference between the growth rate of the population and the growth rate of households between 1960 and 1986 occurred as a result of shifts in the age structure of the population.[1]

Note also that from 1960 to 1980, the age specific headship rates—the headship rate in each individual age bracket—increased in virtually every age group. Changes in several economic and social factors have been cited as the source of this upward trend. First, real per capita income rose rapidly. Because the privacy afforded by having one's own household is viewed as desirable, household formation will tend to increase as income increases. Second, expanded opportunities for women in the labor force and changes in social attitudes about divorce and marriage played a major role. Over that period there was a dramatic decline in the number of young and middle-aged adults living in married couple households due to increases in both the proportion who never married and the proportion who experienced divorce after marriage. For example, in 1970 the median ages at first marriage for men and women were 22.5 years and 20.6 years, respectively. By 1983 those median ages had increased to 24.4 years and 22.5 years, respectively. By 1979, the divorce rate (divorces per 1,000 married women 15 years of age and older) reached 22.8 having increased from 9.4 in 1962. Third, dramatic growth in social security benefits and increases in life expectancy resulting from improved medical care allowed many more elderly persons to maintain separate households. Last, but certainly not least, housing costs were relatively low during this period.

In short, the propensity to form households increased even after taking into account shifts in the age distribution of the population. From 1960 to 1967, headship rates increased in all age groups, but the increases were not concentrated in the age groups which were increasing the fastest, so the overall headship rate only rose 0.9 percentage points. On the other hand, from 1967 to 1980 there were sharp rises in headship rates for age groups occupied by the baby boom group. As a result, the overall headship rate rose about 6 percentage points over this period.

Table 4 presents actual and projected average annual increases in the number of households in total and in selected age groups for five-year intervals from 1970 through 2000. From 1970 to 1975 an average of 1.5 million new households were established each year, while from 1975 to 1980 the average annual increase was nearly 2.0 million. The bulk of these increases occurred among the baby boom age groups and the elderly.



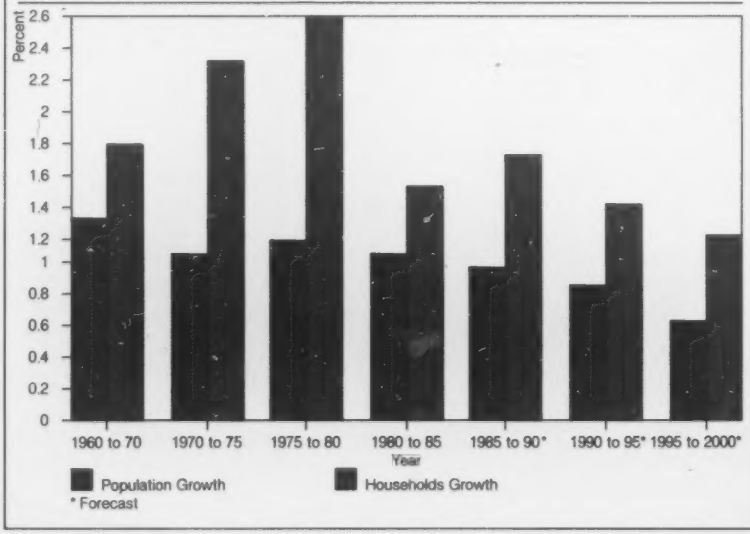
**Affordability has become the main housing problem faced by the nation.**

From 1980 to 1985, unfavorable economic conditions, such as relatively high unemployment and high housing costs, reduced the average annual increase in the number of households to 1.2 million. The impact of these economic factors is evident in the age specific headship rates. From 1980 to 1985 headship rates for individuals aged 15 to 34 and those 65 and over declined, so that the aggregate headship rate increased just 0.8 percentage points. Had economic conditions been more favorable, household formations would very likely have been considerably higher over this period, perhaps 1.7 million per year, since large numbers of the baby boom generation were moving into the age brackets with significantly higher headship rates.

However, while aspirations of separate households were thwarted during the 1980 to 1985 period, it is generally recognized that 1980 was a major turning point from

**CHART 2**

**Growth in Population and Households**
[Compound Annual Percent Change]



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increasing to decreasing household formations. The fastest growing age group during the decade of the 1980s is 35 to 44 years which in 1980 had a headship rate just 1.6 percentage points higher than the 30 to 34 age group. In the decade of the 1990s the fastest growing age group will be 45 to 54 years, which in 1980 had a headship rate just 0.7 percentage points above that of the 35 to 44 age group.

In addition to the age structure of the population, other factors are also likely to promote a slower rate of household formation. One of the most important is housing affordability. Real interest rates are now much higher than they were during the 1970s. Absent major changes in government policies, they are likely to remain relatively high for quite some time, thereby reducing homeownership affordability. And while rental vacancy rates have risen in recent years, there is evidence that the bulk of these vacancies are for units which rent for more than the median rent. Lower-priced rental units appear to be in short supply resulting in substantial increases in rents in that segment of the rental market. Overall, affordability has become the main housing problem faced by the nation.

With respect to marriage and di-

**Table 3**

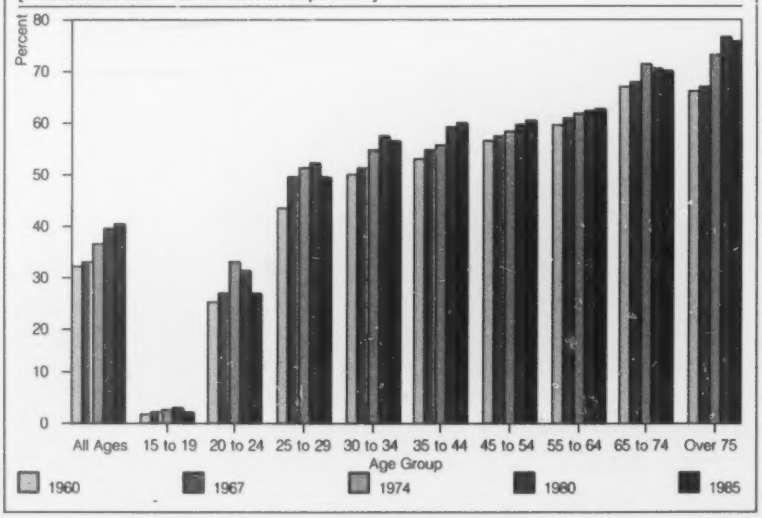
**Household Heads by Age Group as a Percent of Population by Age Group (Headship Rates)**

| Age Group | Headship Rates | | | | | Change in Headship Rates | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1960 | 1967 | 1974 | 1980 | 1985 | 1960 to 67 | 1967 to 74 | 1974 to 80 | 1980 to 85 |
| All Ages | 29.5 | 30.4 | 33.6 | 36.3 | 37.1 | .9 | 3.2 | 2.7 | .8 |
| 15 to 19 yrs. | 1.7 | 1.8 | 2.6 | 3.2 | 2.3 | .1 | .8 | .6 | −.9 |
| 20 to 24 yrs. | 22.2 | 24.2 | 29.9 | 28.7 | 24.5 | 2.0 | 5.7 | −1.2 | −4.2 |
| 25 to 29 yrs. | 40.1 | 45.6 | 47.8 | 48.4 | 45.7 | 5.5 | 2.2 | .6 | −2.7 |
| 30 to 34 yrs. | 45.9 | 47.6 | 51.4 | 53.3 | 52.5 | 1.7 | 3.8 | 1.9 | −.8 |
| 35 to 44 yrs. | 48.8 | 50.4 | 51.8 | 54.9 | 55.9 | 1.6 | 1.4 | 3.1 | 1.0 |
| 45 to 54 yrs. | 52.7 | 53.2 | 54.8 | 55.6 | 56.4 | .5 | 1.6 | .8 | .8 |
| 55 to 64 yrs. | 55.9 | 57.2 | 58.0 | 58.3 | 59.0 | 1.3 | .8 | .3 | .7 |
| 54 to 74 yrs. | 63.1 | 63.9 | 66.6 | 65.8 | 65.5 | .8 | 2.7 | −.8 | −.3 |
| Over 75 | 61.4 | 62.8 | 68.7 | 71.9 | 71.3 | 1.4 | 5.9 | 3.2 | −.6 |

Source: Patric H. Hendershott and Mark Smith, "Household Formations," in *The Level and Composition of Household Saving*, ed. by Patric H. Hendershott (Cambridge, Massachusetts: Ballinger Publishing Company, 1985), p. 185. Hendershott and Smith estimates are based on U.S. Bureau of the Census, Current Population Survey reports.

**CHART 3**

**Household Headship Rates by Age Group**
[Household Heads as Percent of Population]



vorce, there is evidence that as the baby boom generation passes from young adulthood to middle age, a period in which marriage is more prevalent and divorce less prevalent, the divorce rate is declining while the marriage rate is rising. For example, from 1979 to 1983 the divorce rate declined from 22.8 to 21.3.

The combined effect of these economic and demographic influences is that the annual increase in the number of households is expected to average about 1.5 million during the period from 1985 to 1990. From 1990 to 1995 this figure is expected to decline to about 1.2 million. As shown in Table 5, this slowdown in the rate of household formations implies a decline in the number of new housing units that need to be constructed. During the period from 1996 to 2000 an estimated 1.5 million housing units per year will need to be constructed to keep pace with demand, nearly 500,000 units less than during the period from 1970 to 1985.

Tables 6 and 7 and Chart 4 show that while the annual increase in the number of households is expected to decline in the future, there is also evidence that there will be a change in the mix of family versus nonfamily households. Over the period from 1970 to 1985, more than half to all new households were nonfamily households while about one of every four were traditional husband/wife family households. As a result, married couple households declined from 70.5 percent of all households to 58.1 percent. Growth of the number of families with no spouse present—a reflection of the increase in the divorce rate and a large increase in the rate of births to unmarried women—also contributed to the slower growth of married couple households.[2]

Over the remainder of this century it is expected that married couple households will represent a larger proportion of new households than was the case from 1970 to 1985. For example, from 1985 to 1995 over half of all new households will be family households with about one-third being married couple households. Again, this reflects the fact that the bulk of the new households created over this period will be headed by individuals aged 35 to 54 years, an age group where marriage is more prevalent and di-

## Table 4

**Average Annual Increase in Number of Households[a] (Thousands)**

| Year | Total, All Ages | Age of Head of Household: Under 25 | 25 to 34 | 35 to 44 | 45 to 54 | 55 to 64 | 65 and Over |
|---|---|---|---|---|---|---|---|
| 1970 to 1975 | 1,540 | 300 | 640 | 20 | 100 | 100 | 380 |
| 1975 to 1980 | 1,940 | 140 | 720 | 420 | −40 | 240 | 460 |
| 1980 to 1985 | 1,200 | −225 | 300 | 700 | −5 | 110 | 320 |
| 1985 to 1990 | 1,480 | −160 | 230 | 750 | 360 | −150 | 450 |
| 1990 to 1995 | 1,210 | −70 | −250 | 530 | 720 | −20 | 300 |
| 1995 to 2000 | 1,120 | 30 | −390 | 290 | 710 | 330 | 150 |

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 986, Projections of the Number of Households and Families: 1986 to 2000, U.S. Government Printing Office, Washington, D.C., 1986. Projections of Number of Households Based on Series B.
[a] All numbers have been rounded.

## Table 5

**Estimates of Average Annual Need for New Housing Units* [Millions of Units]**

| | 1970 to 1985 | 1986 to 1990 | 1991 to 1995* | 1996 to 2000* |
|---|---|---|---|---|
| Total | 1.95 | 1.90 | 1.60 | 1.50 |
| Increase in Households | 1.65 | 1.60 | 1.30 | 1.20 |
| Replacement | .30 | .30 | .30 | .30 |

*Includes allowance for "normal" vacancy rate.

Source: Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September 1986.
*Forecast

## TABLE 6

**Marital Status of Households**

| Year | Millions: All Households | Millions: Family: Married Couple | Millions: Family: No Spouse Present | Millions: Nonfamily Households | Percent of All Households: Family: Married Couple | Percent of All Households: Family: No Spouse Present | Percent of All Households: Nonfamily Households | Divorced Persons Per 1000 Married Persons With Spouse Present |
|---|---|---|---|---|---|---|---|---|
| 1960 | 52.8 | 39.3 | 5.7 | 7.9 | 74.4 | 10.8 | 15.0 | 35 |
| 1970 | 63.4 | 44.7 | 6.7 | 11.9 | 70.5 | 10.6 | 18.8 | 47 |
| 1975 | 71.1 | 47.0 | 8.6 | 15.6 | 66.1 | 12.1 | 21.9 | 69 |
| 1980 | 80.8 | 49.1 | 10.4 | 21.2 | 60.8 | 12.9 | 26.9 | 100 |
| 1985 | 86.8 | 50.4 | 12.4 | 24.1 | 58.1 | 14.3 | 27.8 | 128 |
| 1990* | 94.2 | 53.0 | 13.7 | 27.5 | 56.3 | 14.5 | 29.2 | — |
| 1995* | 100.3 | 54.9 | 14.9 | 30.5 | 54.7 | 14.9 | 30.4 | — |
| 2000* | 105.9 | 56.3 | 16.0 | 33.7 | 53.2 | 15.1 | 31.8 | — |

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 412 and Series P-25, No. 986.
*Forecast

## TABLE 7

**Average Annual Increase in Households by Marital Status[a] (thousands)**

| | 1970 to 1985 | 1985 to 1990 | 1990 to 1995 | 1995 to 2000 |
|---|---|---|---|---|
| Total | 1,560 (100.0%) | 1,480 (100.0%) | 1,210 (100.0%) | 1,120 (100.0%) |
| Family | 760 (48.7%) | 780 (53.4%) | 620 (50.8%) | 500 (44.6%) |
| Married Couple | 380 (24.4%) | 520 (35.6%) | 380 (31.1%) | 280 (25.0%) |
| No Spouse Present | 380 (24.4%) | 260 (17.8%) | 240 (19.7%) | 240 (19.6%) |
| Nonfamily | 800 (51.3%) | 680 (46.6%) | 600 (49.2%) | 620 (55.4%) |

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 412 and Series P-25, No. 986.
[a] All numbers have been rounded.

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vorce less prevalent. However, the proportion of all households which are married-couple households is expected to continue to decline, albeit at a much slower rate than in the past.

Also of interest is the tenure of the new households expected to be formed over the remainder of this century. The individual household's tenure choice decision is determined by the cost of owning relative to the cost of renting. In the aggregate, the proportion of new households formed which are owners versus renters also depends on the ages of the heads of these new households, since the likelihood of ownership increases with age. It is expected that relatively high proportions of households to be formed in the future would prefer to be owners. As shown in Table 8, the proportion of new households which were owners

**CHART 4**

**Marital Status of Households**
[Percent of All Households]

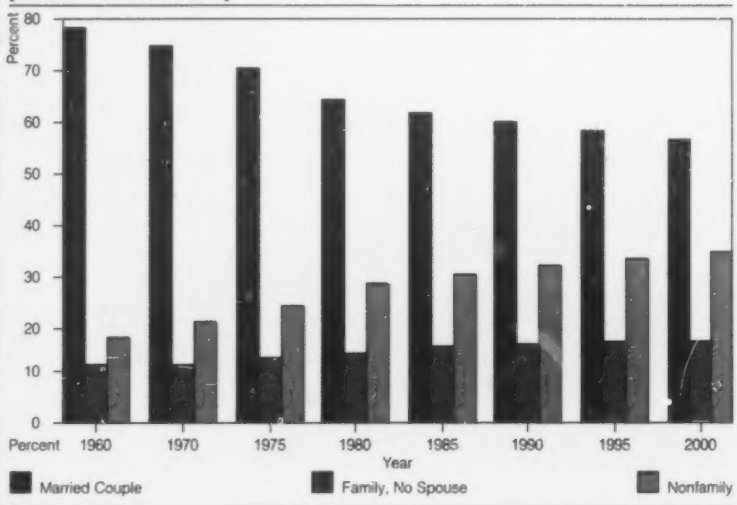



**TABLE 8**

**Actual and Projected Additional Households by Housing Tenure**

| | Owner | Renter | Aggregate Homeownership Rate at End of Period |
|---|---|---|---|
| 1971 to 1975 | 67.9% | 32.1% | 64.6% |
| 1976 to 1980 | 72.9% | 27.1% | 65.6% |
| 1981 to 1985 | 41.1% | 58.9% | 63.9% |
| 1986 to 1990 | 71.0% | 29.0% | 64.5% |
| 1991 to 1995* | 80.0% | 20.0% | 65.4% |
| 1996 to 2000* | 77.0% | 23.0% | 66.0% |

* Forecast
Source: Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September 1986.

**Table 9**

**Supply of New Housing Units by Type, 1970 to 2000**
**[Millions of Units]**

| | Average Annual Level | | |
|---|---|---|---|
| | 1970 to 1985 | 1986 to 1990* | 1991 to 2000* |
| Single-family Construction | 1.00 | 1.20 | 1.00 |
| Multifamily Construction | .60 | .50 | .40 |
| Manufactured Housing | .35 | .20 | .20 |
| Total Supply | 1.95 | 1.90 | 1.60 |

Sources: Dwight M. Jaffee, "The Demand for Housing Units," Salomon Brothers, Inc., December 1986, and Population Reference Bureau, Inc., "Demographics and Housing in America," Population Bulletin, Vol. 41, No. 1, January 1, 1986
*Forecast

declined to 41 percent during the 1980 to 1985 period, causing the aggregate homeownership rate to decline. From 1986 to 2000, an estimated 70 to 80 percent of new households will be owners thereby boosting the aggregate ownership rate.[3]

Given the types of additional households expected to be formed in the future, it is possible to project the likely mix of future housing construction. As shown in Table 9, it is expected that while the number of units constructed declines, single-family homes will represent a larger share of the total than has been the case. Moreover, these single-family homes are likely to be larger, with more amenities, to satisfy the move-up or repeat homebuyers.

Of course, slower growth in the number of households is not the only demographic factor to consider in assessing future demand for housing. If there are significant regional shifts in the population, this factor too must be taken into consideration. Table 10 and Chart 5 show the actual and projected U.S. resident population by region. From 1960 through 1985, the share of total resident population declined in the Northeast and the Midwest, but increased in the South and West. These migration patterns are expected to continue in the future. Because people move, while houses do not, these regional shifts in the population imply more housing demand than would be the case if regional shares remained stable. Additional housing must be provided in the rapidly growing regions. □

*Thomas M. Holloway joined the Mortgage Bankers Association of America (MBA) in May 1987 as a senior economist. Prior to joining MBA, he was the chief of the special studies branch of the bureau of economic analysis in the U.S. Department of Commerce. His work has been published in the* Survey of Current Business, Journal of Money, Credit, and Banking, Public Finance Quarterly, *and the* Journal of Economic and Social Measurement.

*Richard W. Peach is deputy chief economist at the Mortgage Bankers Association of America. Prior to joining MBA, he was an economist with the National Association of Realtors where he served as staff vice president for forecasting and analysis.*

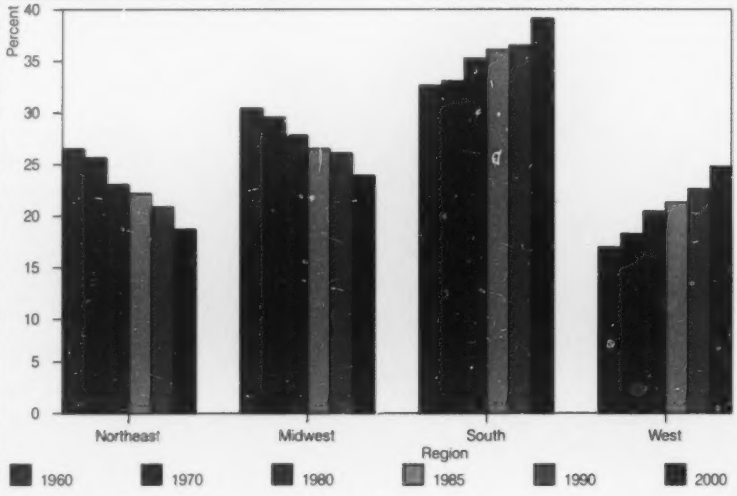
[1]Patric H. Hendershott and Marc Smith, "Household Formations," in *The Level and Composition of Household Saving*, ed. by Patric H. Hendershott (Cambridge, Massachusetts: Billinger Publishing Company, 1985), pp. 183-203.

[2]Hendershott and Smith also found that the growth of the Aid for Dependent Children (AFDC) program contributed to the household formation rate in this marital category.

[3]The Tax Reform Act of 1986 acted to raise the relative price of housing, thereby causing slower household growth in the future. However, that act also is expected to increase the cost of renting relative to the cost of owning, thereby contributing to a higher homeownership rate in the future. See Patric H. Hendershott, "Household Formation and Homeownership: The Impacts of Demographics and Taxes," mimeo, September, 1986.

## CHART 5

**U.S. Resident Population by Region**
[Percent of Total Resident Population]




## TABLE 10

**U.S. Resident Population by Region**

| Year | Total, All Regions | Region | | | |
|---|---|---|---|---|---|
| | | Northeast | Midwest | South | West |
| Millions: | | | | | |
| 1960 | 179.3 | 44.7 | 51.6 | 55.0 | 28.1 |
| 1970 | 203.3 | 49.1 | 56.6 | 62.8 | 34.8 |
| 1980 | 226.5 | 49.1 | 58.9 | 75.4 | 43.2 |
| 1985 | 238.7 | 49.9 | 59.2 | 81.9 | 47.8 |
| 1990* | 249.2 | 48.4 | 60.3 | 87.6 | 52.9 |
| 2000* | 267.5 | 46.4 | 59.7 | 98.8 | 62.5 |
| Percent of Total: | | | | | |
| 1960 | 100.0 | 24.9 | 28.8 | 30.7 | 15.6 |
| 1970 | 100.0 | 24.1 | 27.8 | 30.9 | 17.1 |
| 1980 | 100.0 | 21.7 | 26.0 | 33.3 | 19.1 |
| 1985 | 100.0 | 20.9 | 24.8 | 34.3 | 20.0 |
| 1990* | 100.0 | 19.4 | 24.2 | 35.2 | 21.2 |
| 2000* | 100.0 | 17.4 | 22.3 | 37.0 | 23.4 |
| Compound Annual Growth Rate (Percent): | | | | | |
| 1960 to 1970 | 1.3 | .9 | .9 | 1.3 | 2.2 |
| 1970 to 1980 | 1.1 | 0 | .4 | 1.8 | 2.2 |
| 1980 to 1985 | 1.1 | .3 | .1 | 1.7 | 2.0 |
| 1985 to 1990* | .9 | −.6 | .4 | 1.4 | 2.0 |
| 1990 to 2000* | .7 | −.4 | −.1 | 1.2 | 1.7 |

Northeast: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania
Midwest: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas
South: Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, Texas
West: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, Hawaii
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